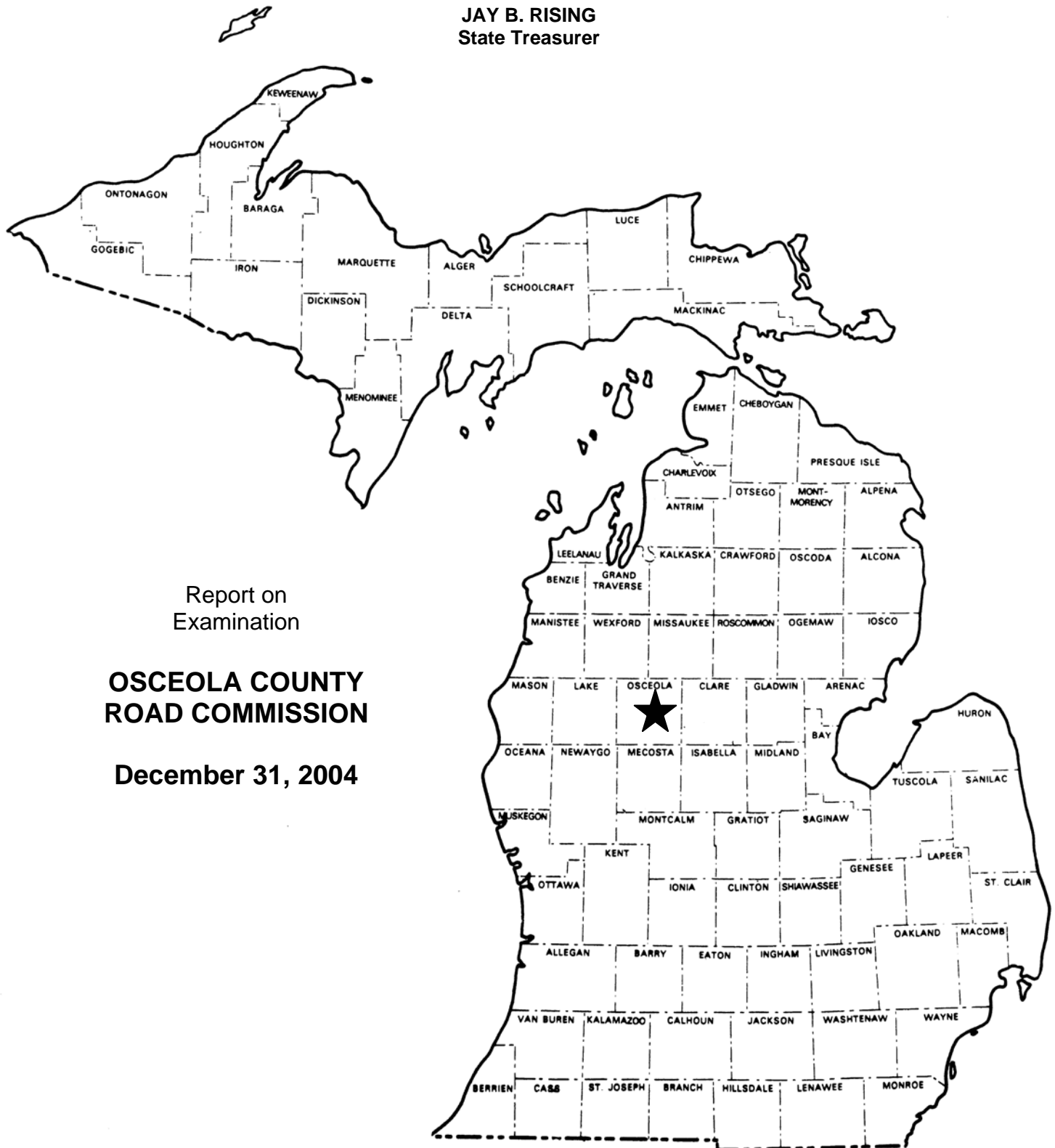


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY

JAY B. RISING
State Treasurer



Report on
Examination

**OSCEOLA COUNTY
ROAD COMMISSION**

December 31, 2004

Local Audit and Finance Division
Bureau of Local Government Services

OSCEOLA COUNTY ROAD COMMISSION
BOARD OF ROAD COMMISSIONERS

Thomas VanEpps
Chairman

Stanley Gregory
Vice Chairman

William Lehman
Member

William Huss
Clerk

Kenneth Logan
Manager

COUNTY POPULATION--2000
23,197

STATE EQUALIZED VALUATION--2004
\$826,439,091



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

April 6, 2005

Osceola County Road Commission
Board of County Road Commissioners
800 South Chestnut Street
Reed City, Michigan 49677

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Osceola County Road Commission, a component unit of Osceola County, Michigan, as of and for the year ended December 31, 2004, as listed in the Table of Contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Osceola County Road Commission as of December 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 through 10 and the budget comparison information in Exhibits G and H are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated April 6, 2005 on our consideration of the Road Commission's internal control over financial reporting

and our test on its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Osceola County Road Commission, taken as a whole. The accompanying supplemental and related information in Exhibits I through K is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of basic the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

OSCEOLA COUNTY ROAD COMMISSION

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OSCEOLA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Osceola County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2004. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provides information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the Operating Fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities reports information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

OSCEOLA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements, mentioned on the prior page, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The Road Commission currently has only one fund, the General Operations Fund. All of the Road Commission's activities are accounted for in this fund. The General Operations Fund is a governmental fund type. Our analysis of the Road Commission's major fund begins on page 5. The fund financial statements begin on page 11 and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the Governmental Fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 10.21%, or \$835,066, from \$8,181,151 to \$9,016,217 for the year ended December 31, 2004. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

OSCEOLA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The restricted net assets decreased by \$381,719 during 2004. The primary reason for the change was a decrease in reserves due to an increase in program expenditures.

The investment in capital assets, net of related debt, increased by \$1,216,785. The increase in net assets is primarily the result of reporting infrastructure of \$909,413 for the year 2004. The depreciation for the current year's infrastructure will be depreciated in the subsequent year. The Road Commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB No. 34.

Net assets as of year ended December 31, 2004 follows:

	<u>2003</u>	<u>2004</u>	<u>Difference</u>	<u>Percent</u>
Current and Other Assets	\$2,509,400	\$1,339,981	\$ (1,169,419)	-46.60%
Capital Assets	<u>7,205,970</u>	<u>8,365,468</u>	<u>1,159,498</u>	<u>16.09%</u>
Total Assets	<u>9,715,370</u>	<u>9,705,449</u>	<u>(9,921)</u>	<u>-0.10%</u>
Liabilities				
Current	972,131	100,980	(871,151)	-89.61%
Noncurrent	<u>561,688</u>	<u>588,252</u>	<u>26,564</u>	<u>4.73%</u>
Total Liabilities	<u>1,533,819</u>	<u>689,232</u>	<u>(844,587)</u>	<u>-55.06%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	6,865,322	8,082,107	1,216,785	17.72%
Restricted	<u>1,315,829</u>	<u>934,110</u>	<u>(381,719)</u>	<u>-29.01%</u>
Total Net Assets	<u><u>\$8,181,151</u></u>	<u><u>\$9,016,217</u></u>	<u><u>\$ 835,066</u></u>	<u><u>10.21%</u></u>

OSCEOLA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

A summary of changes in net assets for the year ended December 31, 2004 follows:

	Governmental Activities			
	2003	2004	Variance	%
Program Revenue				
License and Permits	\$ 8,800	\$ 9,275	\$ 475	5.40%
Federal Grants	83,102	23,390	(59,712)	-71.85%
State Grants	8,376,381	3,814,909	(4,561,472)	-54.46%
Contributions From Local Units	267,349	335,578	68,229	25.52%
Investment Earnings	91,429	13,820	(77,609)	-84.88%
Charges for Services	90,621	46,283	(44,338)	-48.93%
General Revenue				
Insurance Recoveries	18,203		(18,203)	-100.00%
Gain on Equipment Disposal	90,239	253,444	163,205	180.86%
Total Revenue	<u>9,026,124</u>	<u>4,496,699</u>	<u>(1,662,433)</u>	<u>-18.42%</u>
Expenses				
Public Works	2,656,306	3,650,345	(994,039)	-37.42%
Interest Expense	23,542	11,290	12,252	52.04%
Total Expenses	<u>2,679,848</u>	<u>3,661,635</u>	<u>(981,787)</u>	<u>-36.64%</u>
Increase in Net Assets	6,346,276	835,064	(5,511,212)	-86.84%
Beginning Net Assets	<u>1,834,877</u>	<u>8,181,153</u>	<u>6,346,276</u>	<u>345.87%</u>
Ending Net Assets	<u>\$ 8,181,153</u>	<u>\$ 9,016,217</u>	<u>\$ 835,064</u>	<u>10.21%</u>

OSCEOLA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2004, the fund balance of the General Operations Fund decreased \$355,155 as compared to an increase of \$406,711 in the fund balance for the year ended December 31, 2003. Total operating revenues were \$4,496,699, a decrease of \$4,511,222 as compared to last year. This change in revenues resulted primarily from a state grant (Build Michigan III) in the amount of \$4,683,978 that was realized in 2003. Investment earnings also contributed to the change in revenue due to a significant decrease in interest rates and lower cash reserves invested. Total expenditures were \$4,851,854, a decrease of \$4,139,549 as compared to last year. This change in expenditures is due primarily to the expenditure of the state grant funds (Build Michigan III) that were recorded in 2003.

The Road Commission Board strives to hold a fund balance that allows for as many dollars as possible to be expended on road maintenance while also holding the balance where there is an environment for the smooth financial operations of the Road Commission. Although the fund balance decreased by \$355,155 in 2004, there is still a solvent ending fund balance of \$1,239,001.

OSCEOLA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

A summary of changes in the Operating Fund is as follows:

	12/31/03 Operating Fund	12/31/04 Operating Fund	Favorable (Unfavorable) Variance	Variance %
Revenues				
License and Permits	\$ 8,800	\$ 9,275	\$ 475	5.40%
Federal Grants	83,102	23,390	(59,712)	-71.85%
State Grants	8,376,381	3,814,909	(4,561,472)	-54.46%
Contributions From Local Units	267,349	335,578	68,229	25.52%
Charges for Services	10,621	46,283	35,662	335.77%
Interest and Rents	91,429	13,820	(77,609)	-84.88%
Other Revenue	170,239	253,444	83,205	48.88%
Total Revenues	<u>9,007,921</u>	<u>4,496,699</u>	<u>(4,511,222)</u>	<u>-50.08%</u>
Expenditures				
Public Works	8,462,094	4,424,628	4,037,466	47.71%
Net Capital Outlay	164,425	358,649	(194,224)	-118.12%
Debt Service	<u>364,884</u>	<u>68,577</u>	<u>296,307</u>	<u>81.21%</u>
Total Expenditures	<u>8,991,403</u>	<u>4,851,854</u>	<u>4,139,549</u>	<u>46.04%</u>
Excess of Expenditures Over Revenues	<u>16,518</u>	<u>(355,155)</u>	<u>(371,673)</u>	<u>2250.11%</u>
Other Financing Sources				
Insurance Recoveries	18,203			
Proceeds From Lease	<u>371,990</u>		<u>(371,990)</u>	<u>0.00%</u>
Total Other Financing Sources	<u>390,193</u>	<u>-</u>	<u>(371,990)</u>	<u>100.00%</u>
Excess of Revenues and Other Financing Sources Over Expenditures	<u>406,711</u>	<u>(355,155)</u>	<u>(761,866)</u>	<u>187.32%</u>
Fund Balance--Beginning	1,187,445	1,594,156	406,711	34.25%
Fund Balance--Ending	<u>\$ 1,594,156</u>	<u>\$ 1,239,001</u>	<u>\$ (355,155)</u>	<u>-22.28%</u>

OSCEOLA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2004 was \$915,934 more than the original budget. This was due primarily to four (4) things: 1) additional MTF fund allocations in the amount of \$151,390; 2) additional township contributions in the amount of \$334,000 due to road agreements drafted during the 2004 year; 3) Federal fund buyouts in the amount of \$135,000; and 4) Gain on disposal of equipment in the amount of \$253,444. The actual revenue recognized during 2004 was \$13,155 more than the final amended budget.

The final amended expenditure budget for 2004 was \$1,368,312 more than the original budget. The primary reasons for this increase were: 1) local road agreements for local heavy maintenance that were drafted during the 2004 year in the amount of \$575,000; 2) additional local maintenance mostly related to blacktop overlays contributed to an additional \$235,000; 3) an additional \$115,000 in winter maintenance; and 4) net capital outlay was increased in the amount of \$489,504. The actual expenditures recognized during 2004 were less than the final amended budget by \$105,358. There were no unfavorable variances in any expenditure line-items.

OSCEOLA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2004, the Road Commission had invested \$10,522,268 in capital assets. This amount represents a net increase (including additions and deductions) of \$3,316,298 or 46.02% as follows:

	2003	2004	Total Percentage Change 2003-2004
Capital Assets Not being Depreciated			
Land and Improvements	\$ 65,662	\$ 65,662	0.00%
Infrastructure Land Improvements	3,971,296	4,275,492	7.66%
Subtotal	4,036,958	4,341,154	7.54%
Capital Assets Being Depreciated			
Buildings	462,993	635,119	37.18%
Equipment	4,862,669	5,087,302	4.62%
Depletable Assets	196,825	196,825	0.00%
Infrastructure	1,844,566	2,449,783	32.81%
Subtotal	7,367,053	8,369,029	13.60%
Total Capital Assets	11,404,011	12,710,183	11.45%
Total Accumulated Depreciation	(4,198,039)	(4,344,715)	3.49%
Total Net Capital Assets	<u>\$ 7,205,972</u>	<u>\$ 8,365,468</u>	<u>16.09%</u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$909,413. The infrastructure recorded, during 2004, will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions. The Road Commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB No. 34.

OSCEOLA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

This year's major capital asset additions included the following:

Reconstruction of Bridges (by Location)	\$ 35,734
Various Resurfacing Projects and Related Land/Right-of-Way	873,679
Buildings	172,126
Trucks/Equipment	740,025
Administrative and Engineering	<u>4,689</u>
Total Additions	<u><u>\$ 1,826,253</u></u>

There were no installment purchase agreements entered into during 2004, all the equipment was acquired with Road Commission funds. During 2004, the Road Commission traded in and/or disposed of road equipment with a purchase amount of \$520,081, related depreciation of \$439,585, and net book value of \$80,496.

The Road Commission has entered into a capital lease agreement during 2005 with the Osceola County Building Authority for the purchase of two new road facilities. These new facilities were being constructed at the end of the 2004 and is expected to be completed during 2005.

Debt

At year end, the Road Commission had \$283,361 in installment purchase agreements versus \$340,648 last year, a decrease of \$57,287 or 16.82% as shown below:

	<u>2003</u>	<u>2004</u>	<u>Variance</u>	<u>% of Variance</u>
Installment Purchase Agreements	<u>\$ 340,648</u>	<u>\$ 283,361</u>	<u>\$ 57,287</u>	<u>16.82%</u>
Total	<u><u>\$ 292,145</u></u>	<u><u>\$ 283,361</u></u>	<u><u>\$ 57,287</u></u>	<u><u>19.61%</u></u>

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note G to the financial statements.

OSCEOLA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The Road Commission derived approximately 80% of its revenues from the fuel tax collected in 2004. We are not projecting an increase in the MTF funds due to the economy, the significant increase in fuel costs, and the one time plate registration that was implemented in 2004. The Road Commission received approximately 7% of its revenues from township contributions during 2004. This amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. Township contributions for 2005 are anticipated to be similar to those received in 2004.

As stated in the budgetary highlights section, the Road Commission Board strives to hold a solvent fund balance. Although the original 2005 budget projects another year of expenditures greater than revenues, the projected surplus at year end is sufficient for the solvency of the Road Commission.

The board is challenged in its budgeting, in that revenues, namely MTF funds, have not grown to keep pace with the significant increases in costs to run the Road Commission.

The board realizes and the reader should understand that there are not sufficient funds available to repair and/or rebuild every road in Osceola County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Osceola County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Osceola County Road Commission's administrative offices at (231) 832-5171.

OSCEOLA COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
December 31, 2004

EXHIBIT A

ASSETS

Cash	\$ 10,100
Investments	467,746
Receivables	
Accounts	11,524
Michigan Transportation Fund	514,821
Due on County Road Agreements	150,970
Due From Other Component Units	7,274
Inventories	
Road Materials	84,349
Equipment Parts and Materials	93,197
Capital Assets (Net of Accumulated Depreciation)	<u>8,365,468</u>
Total Assets	<u>9,705,449</u>

LIABILITIES

Current Liabilities	
Accounts Payable	78,573
Due to State of Michigan	163
Accrued Liabilities	17,845
Performance Bonds Payable	232
Deferred Revenue	
Forest Road Funds	4,167
Noncurrent Liabilities	
Installment Purchase Agreements Payable--Due Within One Year	59,277
Installment Purchase Agreements Payable--Due in More Than One Year	224,084
Vested Employee Benefits Payable	<u>304,891</u>
Total Liabilities	<u>689,232</u>

NET ASSETS

Investment in Capital Fixed Assets	
Net of Related Debt	8,082,107
Restricted for County Roads	<u>934,110</u>
Total Net Assets	<u><u>\$ 9,016,217</u></u>

The Notes to Financial Statements are an integral part of this statement.

OSCEOLA COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2004

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 1,646,296
Local Road Maintenance	1,670,270
Net Equipment Expense	(138,392)
Net Administrative Expense	337,041
Infrastructure Depreciation	108,566
Compensated Absences	26,564
Interest Expense	11,290
	<hr/>
Total Program Expenses	3,661,635
	<hr/>
Program Revenue	
Charges for Services	
License and Permits	9,275
Charges for Services	46,283
Operating Grants and Contributions	
State of Michigan Transportation Funds	3,579,065
Contributions From Local Units	95,464
Investment Earnings	13,820
Capital Grants and Contributions	
Federal Grants	23,390
State Grants	235,844
Contributions From Local Units	240,114
	<hr/>
Total Program Revenue	4,243,255
	<hr/>
Net Program Revenue	581,620
	<hr/>
General Revenue	
Gain on Equipment Disposal	253,444
	<hr/>
Total General Revenues	253,444
	<hr/>
Change in Net Assets	835,064
	<hr/>
Net Assets	
Beginning of Year	8,181,153
	<hr/>
End of Year	\$ 9,016,217
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement.

**OSCEOLA COUNTY ROAD COMMISSION
BALANCE SHEET
December 31, 2004**

EXHIBIT C

**GOVERNMENTAL
FUND TYPE**

General
Operating
Fund

ASSETS

Cash	\$ 10,100
Investments	467,746
Receivables	
Accounts	11,524
Michigan Transportation Fund	514,821
Due on County Road Agreements	150,970
Due From Other Component Units	7,274
Inventories	
Road Materials	84,349
Equipment Parts and Materials	93,197
Total Assets	<u><u>\$1,339,981</u></u>

LIABILITIES AND FUND EQUITY

Liabilities	
Accounts Payable	\$ 78,573
Due to State	163
Accrued Liabilities	17,845
Performance Deposits Payable	232
Deferred Revenue--Forest Road Funds	4,167
Total Liabilities	<u>100,980</u>
Fund Equities	
Reserved for Inventory	177,546
Fund Balance--Unreserved and Undesignated	1,061,455
Total Fund Equities	<u>1,239,001</u>
Total Liabilities and Fund Equities	<u><u>\$1,339,981</u></u>

The Notes to Financial Statements are an integral part of this statement.

**OSCEOLA COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND
BALANCE TO THE STATEMENT OF NET ASSETS
For the Year Ended December 31, 2004**

EXHIBIT D

Total Governmental Fund Balance	\$ 1,239,001
---------------------------------	--------------

Amounts reported for governmental activities in the Statement of Net Assets are
are different because:

Capital assets used in governmental activites are not financial resources and, therefore, are not reported in the funds.	8,365,468
---	-----------

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(588,252)</u>
---	------------------

Net Assets of Governmental Activities	<u><u>\$ 9,016,217</u></u>
---------------------------------------	----------------------------

The Notes to Financial Statements are an integral part of this statement.

**OSCEOLA COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 2004**

EXHIBIT E

	<u>Operating Fund</u>
Revenues	
Permits	\$ 9,275
Federal Grants	23,390
State Grants	3,814,909
Contributions From Local Units	335,578
Charges for Services	46,283
Interest and Rents	13,820
Other Revenue	<u>253,444</u>
Total Revenues	<u>4,496,699</u>
Expenditures	
Public Works	4,424,628
Capital Outlay--Net	358,649
Debt Service	<u>68,577</u>
Total Expenditures	<u>4,851,854</u>
Excess of Revenues Over (Under) Expenditures	(355,155)
Fund Balance--January 1, 2004	<u>1,594,156</u>
Fund Balance--December 31, 2004	<u><u>\$ 1,239,001</u></u>

The Notes to Financial Statements are an integral part of this statement.

**OSCEOLA COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2004**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$ (355,155)

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures.
However, in the Statement of Activities, the cost of those assets is allocated
over their estimated useful lives as depreciation expense. This is the amount
by which capital outlays exceeded depreciation in the current period. 1,159,496
Equipment retirement is recorded as an expenditure credit in governmental
funds, but not recorded as an expense in the Statement of Activities.

Lease proceeds provide current financial resources to governmental funds,
but entering into lease agreements increases long-term liabilities in the 57,287
Statement of Net Assets. Repayment of notes/leases payable is an
expenditure in governmental funds, but reduces the long-term liabilities in the
Statement of Net Assets.

Some expenses reported in the Statement of Activities do not require the use
of current financial resources and, therefore, are not reported as expenditures
in governmental funds. (Increase in compensated absences and decrease in
interest expense) (26,564)

Change in Net Assets of Governmental Activities \$ 835,064

The Notes to Financial Statements are an integral part of this statement.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Osceola County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Osceola County Road Commission.

NOTE A--REPORTING ENTITY

The Osceola County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3 member board of county road commissioners. The Road Commission may not issue debt without the approval of the county board of commissioners and property taxes would be levied under the taxing authority of the county, as approved by the county board of commissioners. The taxes would be included as part of the county's total tax levy as well as reported in the County Road Fund.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Osceola County Road Commission, a discretely presented component unit of Osceola County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Osceola County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations, as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Osceola County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB No. 34. The Osceola County Road Commission has capitalized the current year's infrastructure, as required by GASB No. 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets on or before December 31, 2007, as permitted by GASB No. 34.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief fiscal officer (road clerk) prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public hearing and subsequently adopts the operating budget. The board has authorized the fiscal officer to amend the Road Commission's budget, when necessary, by transferring up to \$50,000 from one line-item to another. The Road Commission's budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Deposits of the Osceola County Road Fund are in one financial institution in the name of the Osceola County Treasurer. The board of county road commissioners has adopted an investment policy similar to the county's policy in accordance with investment provisions in Public Act 20 of 1943.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Road Commission's cash deposits are as follows:

<u>Imprest Cash and Deposits</u>	<u>Carrying Amount</u>	<u>Financial Institution Balances</u>
Operating Fund		
Insured (FDIC)	\$ 10,000	\$ 16,702
Imprest Cash	<u>100</u>	<u> </u>
Total Operating Fund	<u>\$ 10,100</u>	<u>\$ 16,702</u>

The GASB Statement No. 3 risk disclosures for the Road Commission's investments are as follows:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Nonrisk-Categorized		
Public Funds Money Market Investment Account	\$ 258,941	\$ 258,561
Treasury Portfolio Class B	<u>208,805</u>	<u>217,714</u>
Total Investments	<u>\$ 467,746</u>	<u>\$ 476,275</u>

The Road Commission has investments purchased through a pooled investment account at a financial institution. The nature of the pooled investments does not allow for risk-categorization in accordance with GASB Statement No. 3. The difference between the carrying amount and the fair value is related to the amount of outstanding checks at December 31, 2004.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables are as follows at December 31, 2004:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Road Commission	\$ 7,274	Component Unit	
		Drain Commission	\$ 7,274
Total Road Commission	<u>\$ 7,274</u>	Total Component Unit	<u>\$ 7,274</u>

NOTE F--CAPITAL ASSETS

A summary of changes in the Road Commission's capital assets are as follows:

	<u>Account Balances 01/01/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Account Balances 12/31/04</u>
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 65,662			\$ 65,662
Infrastructure Land Improvements	<u>3,971,296</u>	<u>\$ 304,196</u>		<u>4,275,492</u>
Subtotal	<u>4,036,958</u>	<u>304,196</u>	<u>\$ -</u>	<u>4,341,154</u>
Capital Assets Being Depreciated				
Buildings	462,993	172,126		635,119
Road Equipment	4,715,892	740,025	520,081	4,935,836
Shop Equipment	84,317	1,518		85,835
Office Equipment	30,166	449		30,615
Engineer's Equipment	32,294	2,722		35,016
Depletable Assets	196,825			196,825
Infrastructure--Bridges	361,821	35,734		397,555
Infrastructure--Roads	<u>1,482,745</u>	<u>569,483</u>		<u>2,052,228</u>
Subtotal	<u>7,367,053</u>	<u>1,522,057</u>	<u>520,081</u>	<u>8,369,029</u>
Less Accumulated Depreciation				
Building	340,650	11,512		352,162
Road Equipment	3,559,922	454,149	439,585	3,574,486
Shop Equipment	70,927	2,585		73,512
Office Equipment	24,031	1,432		25,463
Engineer's Equipment	10,426	4,220		14,646
Depletable Assets	192,083	3,797		195,880
Infrastructure--Bridges		12,061		12,061
Infrastructure--Roads		<u>96,505</u>		<u>96,505</u>
Total	<u>4,198,039</u>	<u>586,261</u>	<u>439,585</u>	<u>4,344,715</u>
Net Capital Assets Being Depreciated	<u>3,169,014</u>	<u>935,796</u>	<u>80,496</u>	<u>4,024,314</u>
Total Net Capital Assets	<u>\$7,205,972</u>	<u>\$1,239,992</u>	<u>\$ 80,496</u>	<u>\$ 8,365,468</u>

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Depreciation and depletion expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 447,335
Indirect Equipment	
Shop Building	11,512
Shop Equipment	2,585
Net Administrative Expense	
Engineering	4,220
Office Equipment	1,432
Office Vehicles	6,814
Depletion Expense	<u>3,797</u>
Infrastructure Depreciation	<u>\$ 108,566</u>
Total Depreciation Expense	<u>\$ 586,261</u>

NOTE G--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	<u>Balance</u> <u>01/01/04</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>12/31/04</u>	<u>Due Within</u> <u>One Year</u>
Caterpillar Track-Type Tractor Model D4GXL \$67,895 Capital Lease Dated July 1, 2003	\$ 58,714	\$ (6,833)	\$ 51,881	\$ 7,106
Caterpillar Excavator Model 312CL \$92,095 Capital Lease Dated July 15, 2003	89,632	(10,073)	79,559	10,441
Two 2003 International Trucks \$212,000 Promissory Note Dated May 16, 2003 maturing serially through 2008 with quarterly installments of \$11,558 and an interest rate of 3.3%	192,302	(40,381)	151,921	41,730
Vested Employee Benefits Vacation and Sick Leave	<u>278,327</u>	<u>26,564</u>	<u>304,891</u>	
Totals	<u>\$ 618,975</u>	<u>\$(30,723)</u>	<u>\$588,252</u>	<u>\$ 59,277</u>

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

A Caterpillar Track-Type Tractor Model D4GXL was purchased in July 2003 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$67,895, with 5 annual payments of \$9,181 and a \$30,888 balloon payment due in July 2008 at an implied interest rate of 3.99999%.

<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/04</u>	<u>Payable if Held to Maturity</u>
\$67,895	3.99999%	2005	\$ 7,106	\$ 2,075
		2006	7,390	1,791
		2007	7,685	1,495
		2008	<u>29,700</u>	<u>1,188</u>
		Total	<u>\$51,881</u>	<u>\$ 6,549</u>

A Caterpillar Excavator Model 312CL was purchased in July 2003 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$92,095, with 20 quarterly payments of \$3,291 and a \$41,691 balloon payment due in July 2008 at an implied interest rate of 3.5998%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/04</u>	<u>Interest Payable if Held to Maturity</u>
07/15/03	\$92,095	3.59980%	2005	\$10,441	\$ 2,724
			2006	10,822	2,343
			2007	11,217	1,948
			2008	<u>47,079</u>	<u>1,193</u>
			Total	<u>\$79,559</u>	<u>\$ 8,208</u>

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

Two 2003 International Trucks were purchased in May 2003 under a promissory note through Huntington Bank. The original purchase price was \$21,000, with 20 quarterly payments of \$11,558 at an interest rate of 3.3%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/04</u>	<u>Interest Payable if Held to Maturity</u>
05/15/03	\$212,000	3.3%	2005	\$ 41,730	\$ 4,501
			2006	43,124	3,106
			2007	44,565	1,665
			2008	<u>22,502</u>	<u>277</u>
			Total	<u>\$151,921</u>	<u>\$ 9,549</u>

Vested Employee Benefits

Vacation is earned in varying amounts depending on the number of years of service of an employee and is made available to the employee at the beginning of each year, not to exceed a total accumulation of 44 days for union employees, 59 days for administrative and nonunion supervisory employees. Vacation is payable at 100% to employees when they terminate employment.

Sick leave is accumulated at the rate of 1 day for each month of service, not to exceed a total accumulation of 125 days for all employees. Sick pay is payable at the following percentage when employees leave prior to retirement.

10 years of service	60 percent
5-10 years of service	40 percent
0-5 years of service	20 percent

Sick leave is payable at 100% at retirement or death.

Total accumulated vacation and sick leave has been recorded in the general long-term debt account group. At December 31, 2004, the total vested vacation and sick leave benefits were \$73,465 and \$231,426, respectively.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Osceola County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death, and post-retirement adjustments to plan members and their beneficiaries. The service requirement for general and administration is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% of the final average compensation (FAC) with a maximum benefit of 80% of the FAC for the general and administrative employees. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, MCL 46.12(a), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining units. The employee contribution for the year ending December 31, 2003 was 1.5% of gross wages for general employees and 1.5% of gross wages for administrative employees. The Road Commission was required to contribute at an actuarially determined rate; the current rate was 8.69% and 10.60% of annual compensation at December 31, 2002 for the general and administrative groups, respectively, of annual compensation.

Annual Pension Cost

For the year ended December 31, 2003, the Road Commission's annual pension cost was \$104,017 based on the actuarially determined rate for 2001. The employees contributed \$17,276 in accordance with the union and personnel agreements. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 100,435	100%	\$0
2002	90,394	100%	\$0
2003	104,017	100%	\$0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/01	\$ 4,547,130	\$ 5,070,630	\$ 523,500	90%	\$ 1,105,514	47%
12/31/02	4,556,898	5,274,518	717,620	86%	1,142,640	63%
12/31/03	4,767,569	5,379,367	611,798	89%	1,136,216	54%

NOTE I--POST-EMPLOYMENT BENEFITS

Osceola County Road Commission provides post-employment health care benefits, in accordance with the labor contract and personnel policy, to all employees who retire from the Road Commission. The employer will pay all costs for Blue Cross/Blue Shield, including spouse, from the time the retiree is 62 years old until 65 years of age. After age 65, retirees must reimburse the employer for the cost of insurance. Employees that retire before age 62 may remain in the health group if they reimburse the employer for the cost of insurance.

Currently, 4 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized when insurance premiums are paid. Premiums paid by the Road Commission in 2004 totaled \$22,880, while reimbursements from retirees totaled \$25,183. The net cost to the Road Commission was a negative \$2,303. The reason for the negative cost is retirees are allowed to pay early and the reimbursements are recognized when received while the expenditures are recognized as the insurance premiums become due.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE J--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool (MCRCSIP) for claims relating to general and auto liability, auto physical damage and property loss claims. The Road Commission is self-insured through the County Road Association Self-Insurance Fund (CRASIF) for workers' compensation claims. The Michigan County Road Commission Self-Insurance Pool operates as a claims servicing pool for amounts up to \$1,000,000 per member. Claims in excess of that amount up to \$10,500,000 would be covered by an excess insurance carrier. Although premiums are paid annually to the MCRCSIP (that it uses to pay claims up to the \$1,000,000 limit), the ultimate liability for those claims remain with the Road Commission. Amounts of settlements have not exceeded insurance coverage in the prior three years.

NOTE K--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the calendar year ended December 31, 2004, the Federal aid received and expended by the Road Commission was \$418 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to Single Audit requirements by the road commissions, as they are included in MDOT's single audit.

During the calendar year ended December 31, 2004, the Road Commission received \$22,912 in Federal grants for negotiated projects. Negotiated projects are projects that are performed by the Road Commission and are subject to Single Audit requirements, if the amount expended is \$500,000 or more. A Single Audit was not performed for the calendar year ended December 31, 2004.

NOTE L--SUBSEQUENT EVENTS/COMMITMENTS

On September 1, 2004, the Osceola County Building Authority issued Building Authority Bonds, Series 2004, in the amount of \$3,750,000 for the purpose of constructing, furnishing and equipping two new facilities for the Osceola County Road Commission. The Road Commission has entered into a 30 year lease agreement as lessee for the financing of these two new facilities with the Building Authority, after which time the possession of the leased premises shall vest in the Road Commission after the bonds are retired. The Road Commission is to operate and maintain the leased premises and keep it in good condition and repair. The total estimated cost for the project is \$3,953,038. At December 31, 2004, \$2,156,800 was paid during the year for this project.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE M--CONTINGENT LIABILITIES

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

OSCEOLA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2004

EXHIBIT G

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Weight Permits	\$ 8,000	\$ 9,000	\$ 9,275	\$ 275
Federal Grants				
Surface Transportation Program	-	23,100	23,181	81
"D" Funds	-	-	209	209
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,065,150	2,151,000	2,170,620	19,620
Local Road	1,320,460	1,386,000	1,372,377	(13,623)
Snow Removal	25,000	25,000	26,068	1,068
Economic Development Funds				
Rural Primary (D)	-	-	36	36
Forest Funds (E)	100,000	100,000	100,000	-
Exchange of Federal Funds		135,000	135,808	808
Contributions--Local Units				
Townships	-	334,000	335,578	1,578
Charges for Services				
Salvage Sales	1,000	1,000	2,475	1,475
Other Charges for Services	2,000	43,000	43,808	808
Interest and Rents				
Interest Earned	35,000	11,000	10,354	(646)
Rental Income	1,000	2,000	3,466	1,466
Other Revenue				
Gain on Equipment Disposal	-	253,444	253,444	-
Total Revenue	3,567,610	4,483,544	<u>\$ 4,496,699</u>	<u>\$ 13,155</u>
Fund Balance--January 1, 2004	<u>1,406,420</u>	<u>1,594,156</u>		
Total Budget	<u>\$ 4,974,030</u>	<u>\$ 6,077,700</u>		

OSCEOLA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2004

EXHIBIT H

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Construction	-	\$ 48,221	\$ 48,221	-
Heavy Maintenance	\$ 300,000	255,000	253,172	\$ 1,828
Maintenance	1,430,000	1,685,000	1,646,296	38,704
Local Road				
Heavy Maintenance	-	575,000	572,286	2,714
Maintenance	1,350,000	1,635,000	1,619,686	15,314
Local Road Structure				
Heavy Maintenance	-	38,351	35,734	2,617
Maintenance	-	50,836	50,584	252
Equipment Expense--Net	66,000	(103,000)		
Direct			\$ 865,076	
Indirect			223,998	
Operating			244,417	
Less: Equipment Rentals			<u>(1,471,883)</u>	35,392
Administrative Expense--Net	299,300	339,700		
Administrative Expense			337,343	
Less: Purchase Discounts			<u>(302)</u>	2,659
Capital Outlay--Net	(125,000)	364,504		
Capital Outlay			916,840	
Less: Depreciation Credits			(477,695)	
Equipment Retirements			<u>(80,496)</u>	5,855
Debt Service				
Principal Payments	257,300	57,300	57,287	13
Interest Expense	11,300	11,300	11,290	10
Total Expenditures	3,588,900	4,957,212	<u>\$ 4,851,854</u>	<u>\$ 105,358</u>
Fund Balance--December 31, 2004	1,385,130	1,120,488		
Total Budget	<u>\$ 4,974,030</u>	<u>\$ 6,077,700</u>		

OSCEOLA COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended December 31, 2004

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 2,462,678	\$1,756,865	\$ 277,156	\$ 4,496,699
Total Expenditures	2,060,762	2,372,821	418,271	4,851,854
Excess of Revenues Over (Under) Expenditures	401,916	(615,956)	(141,115)	(355,155)
Other Financing Sources (Uses)				
Optional Transfers	(401,916)	401,916		-
Interfund Adjustments		214,040	(214,040)	-
Total Other Financing Sources (Uses)	(401,916)	615,956	(214,040)	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	-	-	(355,155)	(355,155)
Fund Balance--January 1, 2004	641,336	-	952,820	1,594,156
Fund Balance--December 31, 2004	\$ 641,336	\$ -	\$ 597,665	\$ 1,239,001

OSCEOLA COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES
For the Year Ended December 31, 2004

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Weight Permits			\$ 9,275	\$ 9,275
Federal Grants				
Surface Transportation Program	\$ 23,181			23,181
"D" Funds	209			209
State Grants				
Michigan Transportation Fund				
Engineering	6,127	\$ 3,873		10,000
Allocation	2,170,620	1,372,377		3,542,997
Snow Removal		26,068		26,068
Exchange of Federal Funds	135,808			135,808
Economic Development Fund				
Rural Primary (D)	36			36
Forest Funds (E)	100,000			100,000
Contributions--Local Units				
Townships	11,012	324,566		335,578
Charges for Services				
Salvage Sales			2,475	2,475
Other Charges for Services	11,520	29,981	2,307	43,808
Interest and Rents				
Interest Earned	4,165		6,189	10,354
Rental Income			3,466	3,466
Other Revenue				
Gain on Disposal of Equipment			253,444	253,444
Total Revenue	\$ 2,462,678	\$ 1,756,865	\$ 277,156	\$ 4,496,699

OSCEOLA COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended December 31, 2004

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Construction	\$ 48,221			\$ 48,221
Heavy Maintenance	253,172			253,172
Maintenance	1,646,296			1,646,296
Local Road				
Heavy Maintenance		\$ 572,286		572,286
Maintenance		1,619,686		1,619,686
Local Road Structures				
Heavy Maintenance		35,734		35,734
Maintenance		50,584		50,584
Equipment Expense--Net (Per Exhibit H)	(42,264)	(87,173)	\$ (8,955)	(138,392)
Administrative Expense--Net (Per Exhibit H)	155,337	181,704		337,041
Capital Outlay--Net (Per Exhibit H)			358,649	358,649
Debt Service				
Principal Payments			57,287	57,287
Interest Payments			11,290	11,290
Total Expenditures	\$ 2,060,762	\$ 2,372,821	\$ 418,271	\$ 4,851,854



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

April 6, 2005

Osceola County Road Commission
Board of County Road Commissioners
800 South Chestnut Street
Reed City, Michigan 49677

RE: Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance
With Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Osceola County Road Commission, a component unit of Osceola County, as of and for the year ended December 31, 2004, and have issued our report thereon dated April 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance--As part of obtaining reasonable assurance about whether the Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Osceola County Road Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements

in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the management, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', is positioned above the printed name.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

OSCEOLA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

REPORTABLE CONDITIONS

Although our study and evaluation of the internal control structure disclosed no condition that we believe to be a material weakness, our audit disclosed certain other reportable conditions, which we wish to point out for consideration by the management of the Osceola County Road Commission.

Inventory

We found that inventory is kept at all four garages, but detail records are kept only for the Reed City Garage. Only after the annual physical inventory does one know how much inventory should be at any particular branch garage. Reliance upon the proper charging of inventory items from these garages is required throughout the year without any balances on hand. The charging out of these items is posted to summary amounts kept on the inventory computer system at the Reed City location.

We recommend that all garages have a record of what is on hand, received, and used for the year. Whether this is a computerized system or a card system is not of particular concern. However, internal control of inventory is necessary.